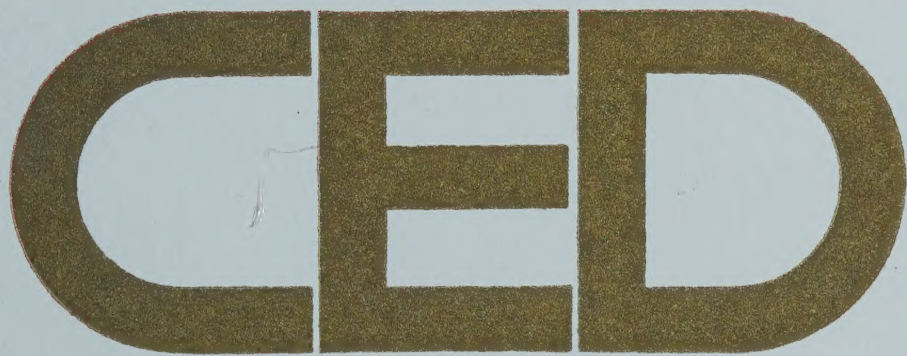


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ANNUAL REPORT

1966

CANADIAN ENTERPRISE DEVELOPMENT CORPORATION LIMITED

“SEEK out creative men with the vision of things to be done. Help breathe life into new ideas and processes and products with money — and with more than money — with sensitive appreciation for creative drive; with support in management and manpower, with loyalty to the idea and to its initiator, the creative man.”

CANADIAN ENTERPRISE DEVELOPMENT CORPORATION LIMITED

Head Office: 966 Sun Life Building, Montreal, Canada

Telephone: 868-2764

Western Office: 914-1111 West Hastings Street, Vancouver, Canada

Telephone: 684-3271

BOARD OF DIRECTORS

Chairman and President,

HERBERT H. LANK,

Chairman of the Board, Du Pont of Canada Limited.

Chairman of the Executive Committee,

ALISTAIR M. CAMPBELL, F.I.A., F.S.A.,

President, Sun Life Assurance Company of Canada.

GEORGES F. DORiot, C.B.E., D.S.M., C.L.H.,

President, American Research and Development Corporation.

DONALD GORDON, C.M.G., D.C.L., LL.D.,

President, British Newfoundland Corporation Limited.

ROBERT M. FOWLER,

President, Canadian Pulp and Paper Association.

GEORGE L. HOLMES, F.S.A.,

Chairman of the Board, The Manufacturers Life Insurance Company.

JOSEPH JEFFERY, O.B.E., Q.C.,

Chairman of the Board, London Life Insurance Company.

DOUGLAS N. KENDALL, O.B.E., F.R.G.S.,

President, Lockwood Survey Corporation Limited.

BERNARD LECHARTIER,

Director, Bank of Montreal.

A. BRUCE MATTHEWS, C.B.E., D.S.O.,

Chairman of the Board, The Excelsior Life Insurance Company.

HON. M. WALLACE McCUTCHEON, P.C., C.B.E., Q.C.,

Chairman of the Board, The National Life Assurance Company of Canada.

GERALD D. SUTTON,

Vice President and General Manager,

Canadian Enterprise Development Corporation Limited.

OFFICERS

HERBERT H. LANK,

Chairman of the Board and President

GERALD D. SUTTON,

Vice President and General Manager

MICHAEL B. HARDING,

*Assistant Vice President
and Secretary*

ALLAN D. LAIRD,

Assistant Vice President

NORMAN C. NAGY,

Staff Associate

DEREK H. MATHER,

*Assistant Vice President
and Treasurer*

TIMOTHY J. RYAN,

Western Associate

THE PURPOSE OF CED

Canadian Enterprise Development Corporation Limited was formed in the autumn of 1962 with an initial capital in excess of \$5 million.

Our objective is to help competent men build their companies into organizations of stature. We will invest in any industry that plays a constructive part in the Canadian economy and that appears to possess attractive possibilities for growth. We are prepared to:

Help create new companies based on new ideas
or on old ideas with a new approach.

Invest in established companies with promise of future growth.

Assist in the development of new enterprises in
Canada based on worthwhile experience from abroad.

Participate in developments or companies outside Canada
where Canadian skills, ideas and experience are involved,
or which will contribute to the Canadian economy.

Co-operate with large corporations in the development of new
products or ideas which may not fit into their particular
line of business.

There is no specific formula for financing projects. Each situation is considered separately and the form of investment is adapted to the individual requirements of the company. It may be through a subordinated note, preferred shares or common shares. But regardless of the means selected the investment is essentially venture capital and there should be an opportunity to participate in the growth in earnings of the company.

Similarly, the amount to be invested is flexible with up to \$500,000 being normal. Where investments in excess of this are involved, CED may be interested as a partner with other companies or professional investors. The percentage of our ownership will be influenced by the relative amount of capital subscribed and the degree of risk involved.

While representation on the Board of Directors is required it is not CED's aim to manage companies. On the contrary we seek to make minority investments in competent men of integrity who will themselves provide the business leadership required to build successful, growing enterprises. But we are in a position to provide counsel and assistance in many respects, not only through the staff and Board of Directors but also our shareholders, affiliates and contacts in Canada, the United States and overseas.

INTERNATIONAL RELATIONSHIPS

Among our shareholders are:

American Research and Development Corporation of Boston, Massachusetts. Formed in 1946, ARD has participated in the development of nearly 100 companies and at the end of 1966 had investments in 43 companies valued at \$86 million and total assets of \$94 million. Many of these companies have achieved outstanding commercial success. ARD was the first publicly owned venture capital company, and in 1961 became the first company of its kind to have its shares listed on the New York Stock Exchange.

C.D.F.C. Holdings Limited, the Canadian subsidiary of Commonwealth Development Finance Company Limited. Formed in London in 1953 by leading institutions in the United Kingdom and Commonwealth countries, C.D.F.C. has helped to finance 90 projects and companies throughout the Commonwealth. At latest report its assets amount to £23 million.

Technical Development Capital Limited of London, England. Organized in 1962 by a group of 42 insurance companies and other institutional investors to help finance companies based on new ideas and technological developments, T.D.C. had an initial capital subscription of £1 million.

Through ARD, and through its own investment, CED has a close association with *European Enterprises Development Company, S.A.*, (see page 8) organized in 1963 with an initial capital of \$2.5 million.

SUBMISSION OF INVESTMENT PROJECTS

Anyone knowing of promising new or established projects or companies is invited to bring them to the attention of CED at our offices in Montreal and Vancouver. It is helpful if proposals can be accompanied by information about the products, people, facilities, financial records and projections so that a clear understanding of the past history, present status and future prospects can be gained. We will state our degree of interest as promptly as we can, but because of the uncertainty surrounding new enterprises and ideas, investigation of projects must frequently be intensive and time consuming. If, after investigation, we find we cannot see our way clear to investing in a project we may still be of assistance; it often happens that in the course of the investigation the solution which develops does not require participation by CED.

INSTITUTIONAL SHAREHOLDERS OF CED

Alliance Mutual Life Insurance Company
American Research and Development Corporation
Bank of Montreal
The Canada Life Assurance Company
Canada Permanent Mortgage Corporation
Canadian Pacific Railway Company
CDFC Holdings Limited
Confederation Life Association
Crédit Foncier Franco-Canadien
Du Pont of Canada Limited Pension Trust Fund
The Excelsior Life Insurance Company
The Great-West Life Assurance Company
The Hydro-Electric Power Commission of Ontario
The Imperial Life Assurance Company of Canada
Industrial Acceptance Corporation Limited
Industrial Life Insurance Company
The London Life Insurance Company
The Manufacturers Life Insurance Company
The Monarch Life Assurance Company
The Mutual Life Assurance Company of Canada
Nesbitt, Thomson and Company Limited
The Royal Trust Company
Succession Honorable J. Marcellin Wilson
Sun Life Assurance Company of Canada
Technical Development Capital Limited
The Toronto-Dominion Bank

**EUROPEAN ENTERPRISES
DEVELOPMENT
COMPANY, EED, S.A.**

66, avenue Kléber, Paris 16, France
37, rue Notre Dame, Luxembourg

A venture capital investment company in Europe with objectives and policies similar to those of C.E.D.

Institutional Stockholders

AB Duba, Stockholm
AB Hindus, Stockholm
AB Nordiska Föreningsbanken, Helsinki
AB Trustee, Stockholm
AB Vectura, Stockholm
American Research and Development Corporation, Boston
Amsterdam-Rotterdam Bank N.V., Rotterdam
Andresens Bank Folke-Realbanken AS, Oslo
Banca Commerciale Italiana, Milan
Banco Español de Credito, Madrid
Banco Fonsecas, Santos & Vianna, Lisbon
Banco Guipuzcoano, San Sebastien
Bankhaus I.D. Herstatt K.G.a.A., Cologne
Banque Nationale de Grèce, Athens
Banque Nationale de Paris, Paris
Banque Worms & Cie, Paris
Bergens Privatbank, Bergen
Canadian Enterprise Development Corporation Ltd., Montreal
Commerzbank AG, Dusseldorf
Compagnie Bancaire S.A., Paris
Compagnie de Gestion Mobilière, COGEMO S.A., Luxembourg
Continental International Finance Corporation, Chicago
Crédit Lyonnais, Lyon
Crédit du Nord, Lille
Den Danske Landmandsbank AS, Copenhagen
Den norske Creditbank, Oslo
Desclée Frères & Cie, Tournai
Dresdner Bank AG, Frankfurt
Istituto Mobiliare Italiano, Rome
Investeringsmaatschappij voor Onafhankelijke Ondernemingen. INVESTCO S.A., Antwerp
Kredietbank S.A. Luxembourgeoise, Luxembourg
Kuhn, Loeb & Co, New York
Lehman Brothers, New York
Lombard, Odier & Cie., Geneva

Mees & Hope, Rotterdam
Midland Bank Ltd., London
Morgan Guaranty International Finance Corporation, New York
Samuel Montagu & Co. Ltd., London
Shawmut International Corporation, Boston
Società d'Affari Mobiliari, SAMO S.A., Lugano
Société Générale, Paris
The Company for Investing Abroad, Philadelphia
Union Financière d'Anvers, BUFA, S.A., Antwerp

Directors

LOUIS ARMAND
*Membre de l'Académie Française
Honorary President, Société Nationale des Chemins de fer Français and Euratom*

THIERRY BARBEY
Partner, Lombard, Odier & Cie, Geneva

CARLO BOMBIERI
Managing Director, Banca Commerciale Italiana, Milan

GUY BROCARD
Partner, Banque Worms & Cie, Paris

FERNAND COLLIN
Chairman, Kredietbank S.A., Brussels

GEORGES F. DORiot
President, American Research and Development Corporation, Boston

HEINRICH JAKOPP
Konsul, Dr. Ing. e.h., Cologne

CHRISTIAN F. KARSTEN
Managing Director, Amsterdam-Rotterdam Bank N.V., Rotterdam

FREDERICK E. NOLTING, JR.
Vice President, European Offices, Morgan Guaranty Trust Company, Paris

MAURICE SCHLOGEL
Deputy General Manager, Credit Lyonnais, Paris

ARNAUD F. de VITRY
Chairman, Technical Studies, Inc., New York

Officers

GEORGES F. DORiot
President

ARNAUD F. de VITRY
Vice President

JEAN GUÉROULT
General Manager

BRUNO ROUX de BEZIEUX
Manager

FOURTH ANNUAL REPORT OF THE PRESIDENT TO OUR SHAREHOLDERS:

Our activities are confined to small companies which we believe hold good promise and to “embryonic ventures” which we assist in getting started. We were not created to buy “blue chips” but hopefully to assist in creating “blue chips” of the future. As a result of this none of our corporate investments is yet listed on a Canadian or foreign stock exchange. We are a risk capital organism and we intend to remain so. There are only two kinds of risks — good and bad. We are trying for a perfect score in the former. Already, however, perfection has eluded us. In 1966 we suffered our first major loss — the failure of Newfield Products Limited, in which we had 35.7% ownership, our total investment amounting to \$257,935. In our opinion, the technology (gamma radiation of potatoes) remains sound, but this interesting technique may possibly be ahead of the times. This is an expensive way to learn lessons, but lessons were learned. Partially offsetting this experience, we realized a net gain of \$92,322 on the sale of shares of Pinnacle Petroleums Limited to Japex Canada Limited. The latter company plans to undertake a long term program of petroleum exploration and development which would be quite beyond our financial ability as currently constituted. We have retained in shares or rights to shares 16.6% of Pinnacle Petroleums.

Our venture investment activity in 1966 amounted to \$833,826. After deducting the proceeds from the sale of shares in Pinnacle Petroleums and after writing off the investment in Newfield the book value of our investments was \$3,320,662 as shown in the balance sheet. Against this total your directors have deemed it prudent to establish a reserve of \$300,000.

At a meeting of the Board held on March 2nd, Mr. Donald Gordon was elected a director of the company. We consider ourselves fortunate indeed to have the benefit of his judgement and broad experience in Government, finance and industry.

It has now been almost a year since I accepted the position of Chairman of the Board and President of C.E.D., following Major General Bruce Matthews, who had served in these capacities so ably for the first three and a half years of the company's existence. No salary is paid to the holder of these offices.

While fully aware of the difficulties in the path of successful innovation, I feel that worthwhile goals will be achieved though the road may be long, occasionally discouraging and full of surprising turns.

During the past year our associates in American Research and Development have dramatically demonstrated what can be accomplished by perseverance, concept and skill. Thus we have an inspiration. Young Canadian companies will also have their successes; our job is to single them out. It is important for us and for Canada that we be able and willing to foster the establishment and growth of those companies that will keep pace with the rapid advances that are occurring elsewhere in the fields of technology, production, marketing and servicing. This is the basic concept of C.E.D. and it holds compelling challenges.

Since this is our Fourth Annual Report, I would like to quote from the Fourth Annual Report of American Research and Development Corporation:

“A year seems a very short period in the building up of small companies. Impatience does not always help. It is difficult to make significant statements at such short periods of time. A company must be several years old and have reached a fairly high level of maturity and stability in its growth curve before its management should venture to make optimistic statements as to its future. Until then, hopes must be called hopes. Continued hard work on the part of the affiliates and of American Research and its friends will, we believe, make optimistic statements possible in the future.”

REPORT OF THE GENERAL MANAGER

As our liquid resources are gradually employed in long term investments, there is a natural shift in the composition of income and a transitional decline in the overall level, until a sufficient number of affiliates reach that stage of maturity where they can declare dividends on their common shares. None is as yet at this stage, and as anticipated our total income continued to decline in 1966.

Expenses rose approximately 7½ % over those of 1965, the major factor being additional staff as mentioned in the previous annual report, and a net operating deficit of \$22,201 was incurred. After non-recurring adjustments and the appropriation of \$300,000 to the reserve for possible future losses on investments, the deficit amounted to \$415,099.

During the year \$833,826 was invested in seven affiliates and four projects, as follows:

Additional Investments in Affiliates

Evangeline Savings & Mortgage Company (Windsor, N.S.)
\$16,250 in common shares, representing a further partial call on our total commitment of \$143,000.

Houston-Schmidt Limited (Toronto, Ont.)
\$47,000 in notes.

The Mortgage Insurance Company of Canada (Toronto)
\$100,000 in common shares, representing a further call on our total commitment of \$500,000.

Newfield Products Limited (Mont St. Hilaire, P.Q.)
\$25,000 note.

Pinnacle Petroleums Limited (Calgary, Alberta)
\$120,000 in common shares. This investment was made early in 1966, prior to the company's negotiations with Japex Canada Limited.

Stedfast Screw Company Limited (Montreal, P.Q.)
\$95,000 note with warrants.

Taylor-Smith Manufacturing Co. Ltd. (Vancouver, B.C.)
\$77,675 note with warrants.

New Portfolio Companies Financed During 1966.

European Enterprise Development S.A. (Luxembourg & Paris)
\$54,182 as part of a commitment of \$200,000 U.S. The shareholders and directors of EED are listed on page 8 of this report.

Quebec Terminals Limited. (Quebec City)
\$137,995 in preferred and common shares. The company is engaged in various aspects of transportation, including stevedoring, port agency operations and the bulk trucking of commodities, and has played an active role in the development of winter navigation on the St. Lawrence River.

Steel Brothers Canada Limited (Vancouver)
\$60,714 in common shares. The company is the Canadian subsidiary of a long established English firm, and is engaged in the production and distribution of building materials and industrial minerals in British Columbia and Alberta.

Westmills Limited (Kelowna, B.C.)
\$100,010 in preferred and common shares. This is a new company established to build and operate the first tufted carpet plant in Western Canada. Our total commitment is \$150,015.

A number of new projects are currently under investigation which have been developed by the staff or which have been referred to us by our shareholders and friends in the business community. We would again like to express our appreciation to all who have helped us by bringing interesting people and ideas to our attention, for it is from the combination of people and ideas that opportunities for creative investment are born.

During the year Mr. T. J. Ryan, B.Com., M.B.A., joined our Vancouver office as Western Associate and Mr. Norman C. Nagy, B.Sc., M.B.A., was added to the Montreal office. Mr. Allan Laird was appointed Assistant Vice-President, resident in Vancouver.

The past year has not been an easy one for small or new companies such as we have in our portfolio. Difficult monetary conditions and their effect on the housing market were two problems in particular that retarded the growth of some of our affiliates. Nevertheless, many were able to report improved results over 1965 and I should like to express appreciation to our staff who, in addition to investigating new prospects, were so active in support of our existing investments.

AUDITORS' REPORT TO THE SHAREHOLDERS

The Shareholders,
Canadian Enterprise Development Corporation Limited —
Société Canadienne de Développement des Entreprises Limitée,
Montreal, Que.

We have examined the accompanying balance sheet of Canadian Enterprise Development Corporation Limited — Société Canadienne de Développement des Entreprises Limitée as at December 31, 1966 and the statements of income and deficit for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. It was not practicable for us to substantiate the values, determined by the Board of Directors of the company, for certain investments for which market quotations are not available.

In our opinion, subject to the determination of the values referred to above, the aforementioned financial statements present fairly the financial position of the company as at December 31, 1966 and the results of its operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

TOUCHE, ROSS, BAILEY & SMART
Chartered Accountants.

Montreal, Que.
February 27, 1967.

CANADIAN ENTERPRISE DEVELOPMENT CORPORATION LIMITED
SOCIÉTÉ CANADIENNE DE DÉVELOPPEMENT DES ENTREPRISES
LIMITÉE

(Incorporated under the Canada Corporations Act)

BALANCE SHEET AS AT DECEMBER 31, 1966

ASSETS

Current Assets	1966	1965
Cash.....	\$ 39,152	\$ 29,304
Short-term investments, at cost (approximates market).....	2,021,657	2,553,000
Accrued revenue.....	12,319	59,152
Accounts receivable.....	2,912	1,982
Income tax recoverable.....	—	10,414
	<u>2,076,040</u>	<u>2,653,852</u>
Investments, at cost (Note 1).....	3,320,662	2,929,471
Less: Provision for possible losses.....	300,000	75,000
	<u>3,020,662</u>	<u>2,854,471</u>
Furniture and Equipment, at cost less depreciation.....	9,482	11,449
	<u>\$5,106,184</u>	<u>\$5,519,772</u>

LIABILITIES

Current Liabilities		
Accounts payable and accrued expenses	\$ 16,926	\$ 12,387

SHAREHOLDERS' EQUITY

Common Stock:		
Authorized — 50,000 shares of no par value		
Issued — 27,498 shares.....	5,500,723	5,500,723
Earned Surplus (Deficit).....	(411,465)	6,662
	<u>5,089,258</u>	<u>5,507,385</u>
	<u>\$5,106,184</u>	<u>\$5,519,772</u>

On behalf of the Board:

HERBERT H. LANK, *Director*.

GERALD D. SUTTON, *Director*.

CANADIAN ENTERPRISE DEVELOPMENT CORPORATION LIMITED
SOCIÉTÉ CANADIENNE DE DÉVELOPPEMENT DES ENTREPRISES
LIMITÉE

STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 1966

Income	1966	1965
Income from short-term investments.....	\$125,121	\$154,280
Income from long-term investments, including consulting fees.....	76,445	95,639
	<u>201,566</u>	<u>249,919</u>
Expenses (Note 2)		
Salaries.....	115,669	98,576
Other expenses.....	108,098	107,987
	<u>223,767</u>	<u>206,563</u>
	(22,201)	43,356
Investments written off, less recoveries.....	258,692	19,331
Provision for possible losses.....	225,000	20,000
	<u>483,692</u>	<u>39,331</u>
Less: Gain on disposal of investments.....	90,794	—
	<u>(392,898)</u>	<u>39,331</u>
Net income (loss) for the year.....	<u>(\$415,099)</u>	<u>\$ 4,025</u>

STATEMENT OF DEFICIT
FOR THE YEAR ENDED DECEMBER 31, 1966

Earned surplus at beginning of year.....	\$ 6,662	\$ 2,637
Prior years' income tax.....	3,028	—
	<u>3,634</u>	<u>2,637</u>
Net income (loss) for the year.....	<u>(415,099)</u>	<u>4,025</u>
Earned surplus (deficit) at end of year.....	<u>(\$411,465)</u>	<u>\$ 6,662</u>

CANADIAN ENTREPRISE DEVELOPMENT CORPORATION LIMITED
SOCIÉTÉ CANADIENNE DE DÉVELOPPEMENT DES ENTREPRISES
LIMITÉE

NOTES TO FINANCIAL STATEMENTS
AS AT DECEMBER 31, 1966

1. Includes \$232,500 representing an investment in a company in which Canadian Enterprise Development Corporation Limited owns more than 50 % of the shares. The assets, liabilities, income and expenses of the company which is more than 50 % owned are not included in the financial statements of the Company because the former is an operating company whereas Canadian Enterprise Development Corporation Limited is an investment company. The losses of the operating company since majority ownership was acquired have been fully provided for.
2. The expenses include:

	<i>1966</i>	<i>1965</i>
Directors' remuneration, including salary to a director who is also a company officer.....	\$35,050	\$32,050
Depreciation.....	2,370	2,862
3. The Company is contingently liable as guarantor of loans totalling \$371,400.
4. Options have been granted to certain employees to purchase a total of 200 common shares of the Company at a price of \$200.87 each.

CANADIAN ENTERPRISE DEVELOPMENT CORPORATION LIMITED
SOCIÉTÉ CANADIENNE DE DÉVELOPPEMENT DES ENTREPRISES
LIMITÉE

AFFILIATED COMPANIES

CENTRAL DYNAMICS LTD., Pointe Claire, Quebec.

Manufacturers of electro-mechanical components and electronic equipment, with promising new products in video switching apparatus and digital control systems.

COOPER-WIDMAN LIMITED, Vancouver, B.C.

International distributor of lumber, plywood and other building products; controls Omineca Lumber Company Limited, Tru-Fit Millwork Ltd., H. Pearson Lumber Company Limited, and Strimbold Sawmills & Planing Company Limited.

CORNISH TIN IMPROVEMENTS LIMITED, Ottawa, Ontario.

A Canadian company formed to encourage the processing of tin mine tailings in Cornwall, England, using a new process developed by Geo-Met Reactors Limited.

EUROPEAN ENTERPRISES DEVELOPMENT COMPANY,
Luxembourg and Paris, France.

European Venture capital company with objectives and policies similar to those of CED.

EVANGELINE SAVINGS AND MORTGAGE COMPANY,
Windsor, Nova Scotia.

New savings and loan company to serve the Maritime Provinces.

GEO-MET REACTORS LIMITED, Ottawa, Ontario.

Research and development company in metallurgical field; a subsidiary, Masterloy Products Limited, is the only Canadian producer of certain ferro-alloys.

HOUSTON SCHMIDT LIMITED, Toronto, Ontario.

Research and development company on new methods of processing thin film material.

MONOMOLD CONTAINERS LIMITED, Edmonton, Alberta.

New company to produce moulded pulp products.

THE MORTGAGE INSURANCE COMPANY OF CANADA,
Toronto, Ontario.

New company established by Act of Parliament to provide partial insurance coverage on conventional residential mortgages.

NORTHERN PLYWOODS LIMITED, Nipigon, Ontario.

Manufacturer of poplar plywood.

PINNACLE PETROLEUMS LIMITED, Calgary, Alberta.

Petroleum exploration and development company.

QUEBEC TERMINALS LIMITED, Quebec City, Quebec.

Transportation company engaged in stevedoring, shipping agency business and the bulk trucking of commodities.

STEDFAST SCREW COMPANY LTD., Montreal, Quebec.

New company established to manufacture specialty fasteners for electronic, furniture and other industries.

STEEL BROTHERS CANADA LTD., Vancouver, B.C.

Manufacturer & distributor of industrial minerals & building materials

TAYLOR-SMITH MANUFACTURING CO. LTD., Vancouver, B.C.

Company formed to develop new automatic machine to produce concrete building blocks with impregnated facings of stone, quartz, shells or other desired materials.

TRANS PACIFIC LEASING SERVICES LTD., Vancouver, B.C.

Company specializing in financial lease and purchase arrangements on equipment.

WESTMILLS LIMITED, Kelowna, B.C.

New company to manufacture tufted carpets for the western Canadian market.

